ALLTEL CORPORATION
655 15th Street N.W.
Suite 220
Washington, DC 20005
202-783-3970
202-783-3982 fax

ALLTEL

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September 17, 1998

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: In the Matter of
Access Charge Reform for
Incumbent Local Exchange Carriers
Subject to Rate-of-Return Regulation
CC Docket No. 98-77

Dear Ms. Salas:

Enclosed for filing on behalf of ALLTEL Communications Services Corporation ("ALLTEL") please find an original and sixteen (16) copies of its reply comments in connection with the above-referenced matter.

Also, in accordance with the Commission's Notice of Proposed Rulemaking dated June 4, 1998, I am sending two copies of ALLTEL's reply comments to the Competitive Pricing Division.

Please address any questions respecting this matter to the undersigned counsel.

Very truly yours,

Carolyn Hill

Carolyn C. Hill

CCH/ss

Enclosures

cc: (w/encl.)
Kathryn C. Brown, Chief, Common Carrier Bureau
Competitive Pricing Division
International Transcription Service, Inc.

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation	)))	**CC Docket No. 98-77**

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Reply Comments of
ALLTEL Communications Services Corporation

ALLTEL Communications Services Corporation, on behalf of its local telephone exchange affiliates (hereinafter "ALLTEL" or the "ALLTEL Companies"), respectfully submits its reply comments in the above-captioned matter.

Introduction

Parties propose a variety of methods by which the access charge structure of rate-of-return LECs *could* be modified. Some simply suggest overlaying the price cap construct onto the rate-of-return LECs. Others propose "interim" solutions replete with varying transitional mechanisms which, nonetheless, appear strikingly similar to the price cap rate structure. AT&T - in brazen fashion - ill advisedly urges the Commission to lower the authorized rate-of-return.[1] The record clearly demonstrates that the time is not ripe for a complete overhaul of the access charge structure for rate-of-return LECs.[2]

[1] *See* comments of AT&T at 6-7.
[2] *See* comments of MCI Telecommunications Corporation ("MCI") at 3-4; National Exchange Carrier Association ("NECA") at 3; National Rural Telecom Association and the National Telephone Cooperative Association ("NRTA/NTCA") at 1-2; United States Telephone Association ("USTA") at 1-2; Fred Williamson at 4; John Staurulrakis, Inc. ("JSI") at 2; Minnesota Independent Coalition at 2; TDS Telecom

ALLTEL agrees and submits that access reform can only be accomplished if coupled with increased pricing flexibility for rate of return LECs.

The ALLTEL reply comments herein address why it is imperative that pricing flexibility be granted now to the ALLTEL rate-of-return LECs and respond to AT&T's ill-considered proposal for a represcription proceeding.

Pricing Flexibility is the Key to True Access Reform

As ALLTEL has indicated in earlier filed comments and reply comments in CC Docket No. 96-262, and in its comments in the instant proceeding, CC Docket No. 98-77, the key determinant to effectively responding to changing conditions within the telecommunications marketplace is the ability to price access services flexibly[3]. It is inconsistent with the Commission's stated goals of achieving economic efficiency and advancing competition for it to concentrate on micromanaging an out-moded system of access charge regulation while deferring consideration of fundamental issues such as pricing flexibility.

Coincident with the implementation of access reform, the Commission must grant rate-of-return LECs latitude with respect to the pricing of access services. The inherent linkage between true reform and the ability to price access services flexibly cannot be ignored or addressed in a separate proceeding as the Commission proposed in the

("TDS") at 2; Telephone Association of New England at 3-4; Virgin Islands Telephone Corporation ("Vitelco") at 7-9; and Western Alliance at 10 and 13; who propose that the Commission defer addressing access reform for rate-of-return LECs until resolution of important universal service and separations reform issues.

[3] ALLTEL has consistently articulated that if true access reform is to be achieved, the following is required: (i) rate-of-return LECs need the ability to implement geographically deaveraged rates, (ii) to offer term and volume discounts on switched services, and (iii) the Part 69 "all or nothing" pooling rule must be eliminated.

NPRM.[4] To address one issue without considering the import of the other is clearly an approach not grounded in reality. This theme is echoed in the comments of a number of parties which also stress the need for the Commission to act in a comprehensive fashion now.[5]

The end state of access reform should be a healthy competitive environment with all competitors enjoying an equivalent level of deregulation. However, the continued imposition of asymmetrical regulatory requirements on incumbent rate-of-return LECs works against the achievement of this objective. What is required is access pricing flexibility now for the rate-of-return LECs. The most basic form of pricing flexibility that should be granted is the freedom to develop access rates on a geographically deaveraged basis. This will allow access rates to be aligned with the actual cost of providing access service which sends the proper signals to potential competitors and prevents inefficient market entry.

Furthermore, the alignment of deaveraged unbundled network elements with deaveraged access rates will not artificially incent new entrants to purchase unbundled elements thereby allowing them to undercut averaged access rates. Without deaveraged rates, rate-of-return LECs will be unable to respond to this arbitrage.

In order to deaverage rates across study areas, the Part 69 "all or nothing rule" must be eliminated. The rule currently permits exit from the NECA common line pool

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[4] *See* Notice of Proposed Rulemaking. FCC 98-101 (rel. June 4, 1998) at paragraph 3 (the "Notice").

[5] *See* comments of Organization for the Protection and Advancement of Small Telephone Companies ("OPASTCO") at 9-11; ATU Telecommunications ("ATU") at 2; USTA at 23-24; Home Telephone Company at 7; Attachment A to comments of USTA, *Access Reform for Rate of Return Local Exchange Carriers: An Opportunity to "Get it Right."* Affidavit of Margaret L. Rettle, Lisa M. Milofsky, Calvin S. Monson, Kirsten M. Pehrsson, and Jeffrey H. Rohlfs, Strategic Policy Research Inc. (the "SPR Affidavit") at 10-16.

only on a holding company basis rather than on the needed study area basis. Deaveraging, coupled with the ability to exit the NECA CCL pool on a study area basis, are necessary predicates to access reform. These measures will enable rate-of-return companies, such as the ALLTEL LECs, to respond more effectively to competition within their geographically denser markets.

Beyond pricing flexibility, there is a need for additional regulatory relief for rate-of-return LECs. It is imperative that rate-of-return LECs be afforded the ability to offer term and volume discounts. These offerings, when combined with a customer-specific contract keyed to that customer's requirements will (i) reflect cost efficiencies, and (ii) promote proper utilization of telecommunications resources. This point is correspondingly reflected in the comments of OPASTCO wherein it advocates that "carriers should be afforded the flexibility to adjust rates for individual customers."[6] Similarly, ATU states that "carriers facing competition must be able to offer term and volume discounts, and otherwise modify rates for competitive services."[7]

AT&T's Proposals Are Ill-Advised and Beyond The Scope of This Proceeding

In its comments, AT&T proposes that the Commission initiate a proceeding to adopt rules to reduce the rate-of-return LECs' rate levels on the alleged basis that their rate levels are "excessive". In addition, AT&T also advocates that "...to the extent that such disparities remain after prescription of a new rate-of-return, the Commission should eliminate those disparities altogether by pegging the rate-of-return LECs' restructured

[6] *See* OPASTCO comments at 10.
[7] *See* ATU comments at 4. Faced with competition from the facilities-based carrier, GCI, ATU has been forced to file a Part 69 waiver with the FCC in order to have the ability to offer volume and term discounts. This Petition was filed with the Commission on June 22, 1998. Absent the ability to provide such an offering, ATU faces the potential loss of a key customer, AT&T Alascom.

traffic-sensitive rates to the nationwide average of the price cap LECs' traffic-sensitive rates."[8] AT&T's proposals are both beyond the scope of this proceeding and ill-advised. Significantly, AT&T itself pointed out in its response to the Commission's Preliminary Rate of Return Inquiry, DA-96-139, AAD 96-28, that represcription proceedings can be lengthy and would affect only a small portion of IXCs' access costs[9]. This remains true.

More importantly, the Commission must not be diverted from achievement of the goals of the 96 Telecom Act by proposals which ignore the competitive realities of the marketplace and which serve only to advance the access interests of a large IXC. When the Access Reform proceeding was originally commenced, it was characterized as the last in a trilogy of proceedings designed to establish a new regulatory paradigm to advance competition, reduce regulation in telecommunications markets, and, at the same time, preserve and advance universal service to all Americans. ALLTEL submits that these goals can still be achieved. They can be achieved in large measure by the adoption of access reform measures consistent with ALLTEL's proposals in this proceeding.

Conclusion

Meaningful access reform for rate-of-return carriers is a complex, but achievable undertaking. The Commission has the opportunity to foster positive change for rate-of-return LECs and the largely rural customer base that they serve. By deferring permanent changes to the access charge rate structure while adopting greater pricing flexibility and improved regulation consistent with the 1996 Act, the Commission can level the playing

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[8] See comments of AT&T at 1-2 and 4-8.

[9] *See* comments of AT&T at 3 (filed Mar. 11, 1996) in *Preliminary Rate of Return Inquiry for Local Exchange Carriers Subject to Rate of Return Regulation for their Earnings on Interstate Access Services*, AAD 96-28, AAD 95-172, (the "ROR Inquiry"). Public Notice (rel. Feb. 6, 1996).

field for rate-of-return LECs, and, in turn, promote efficient responses to emerging competition. As noted in the SPR Affidavit, "regulators should use pricing flexibility to emulate results of a competitive market."[10] ALLTEL urges the Commission to adopt rules which result in such an outcome. In addition, we strenuously object to the ill-conceived and ill-advised AT&T attempt to have the Commission represcribe the authorized rate-of-return or to otherwise "peg" the traffic-sensitive rates of rate-of-return LECs to those of the price cap LECs.

Respectfully submitted,

ALLTEL Communications Services Corporation

By: Carolyn C. Hill

Carolyn C. Hill
Its Attorney
655 15th Street, N.W.
Suite 220
Washington, D.C. 20005
(202) 783-3970

Dated: September 17, 1998

[10] *See* SPR Affidavit at 10.

CERTIFICATE OF SERVICE

I, Carolyn C. Hill, do certify that I have on this 17th day of September, 1998 caused a copy of the foregoing Reply Comments of ALLTEL Communications Services Corporation to be served by first-class U.S. mail, postage prepaid, to the persons on the attached service list, unless otherwise noted.

Carolyn C. Hill

Carolyn C. Hill

Judy Sello, Esquire
Counsel for AT&T Corporation
1722 Eye Street, N.W.
Washington, DC 20006

John N. Rose, Esquire
OPASTCO
21 Dupont Circle, N.W.
Suite 700
Washington, DC 20036

Richard J. Johnson, Esquire
Moss & Barnett
Attorney for Minnesota
Independent Coalition
4800 Norwest Center - 90 South 7th St.
Minneapolis, MN 55402-4129

David Cosson, Esquire
Kraskin, Lesse & Cosson, LLP
Attorney for The Telephone Association
of New England
2120 L Street, N.W.
Washington, DC 20037

Margot Smiley Humphrey, Esquire
Attorney for National
Rural Telecom Association
1150 Connecticut Avenue, N.W.
Washington, DC 20036

L. Marie Guillory, Esquire
Counsel for National Telephone
Cooperative Association
2626 Pennsylvania Avenue, N.W.
Washington, DC 20037

Samuel E. Ebbesen, President & CEO
Virgin Islands Telephone Cooperation
PO Box 6100
St. Thomas, Virgin Islands 00801-6100

Don Sussman, Esquire
Alan Buzacott, Esquire
Attorneys for MCI
1801 Pennsylvania Avenue, N.W.
Washington, DC 20006

William J. Warinner, CPA
for Frederick & Warinner, L.L.C.
10901 West 84th Terrace
Suite 101
Lenexa, KS 66214-1631

Margot Smiley Humphrey, Esquire
Koteen & Naftalin, L.L.P.
Counsel for TDS Telecommunications
Corporation
1150 Connecticut Avenue
Washington, DC 20036-4104

Ted Moninski Director/Regulatory
Affairs
ATU Telecommunications
600 Telephone Avenue
Anchorage, Alaska 99503

Paul J. Berman, Esquire
Covington & Burling
Attorney for ATU Telecommunications
1201 Pennsylvania Avenue, NW
PO Box 7566
Washington, DC 20044

Benjamin H. Dickens, Jr.
Blooston, Mordkofsky, Jackson &
Dickens
Attorneys for the Western Alliance
2120 L Street, N.W.
Suite 300
Washington, DC 20037

Duane C. Durand
Bristol Bay Telephone Cooperative,
Inc.
PO Box 259
King Salmon, AK 99613

Jillisa Bronfman, Esquire
Beck & Ackerman
For Small Western LECs
Four Embarcadero Center
Suite 760
San Francisco 94111

David W. Zesiger, Executive Director
Donn T. Wonnell, Counsel for
The Independent Telephone &
Telecommunications Alliance
1300 Connecticut Avenue, N.W.,
Suite 600
Washington, DC 20036

Lawrence E. Sarjeant/Linda Kent
For U.S. Telephone Association
1401 H Street, N.W.
Suite 600
Washington,DC 20005

Kathy L. Shobert, Director, Federal
Affairs
901 15th Street, N.W.
Suite 900
Washington, DC 20005

Steve Hamlen, President
United Utilities, Inc.
5450 A Street
Anchorage, AK 99518-1291

Richard A. Askoff, Esquire
Perry S. Goldschein, Esquire
National Exchange Carrier Association,
Inc.
2300 N Street, N.W.
Suite 600
Washington, DC 20037

Bruce Schoonover, Executive Vice
President
John Staurulakis, Inc.
6315 Seabrook Road
Seabrook, MD 20706

H. Keith Oliver, Vice President -
Finance
Home Telephone Company, Inc.
200 Tram Street
Moncks Corner, SC 29461

Competitive Pricing Division
Common Carrier Bureau
Federal Communications Commission
1919 M Street
Room 518
Washington, DC 20554
(By Hand Delivery)

Kathryn C. Brown, Chief
Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W.
Room 500
Washington, DC 20554
(By Hand Delivery)

International Transcription Service
1231 20th Street, N.W.
First Floor
Washington, DC
(By Hand Delivery)